Expecting a seasonally stronger 4Q

MISC's 3Q19 was in line with our expectations. 9M19 profit improved 18% yoy driven by higher LNG vessels contribution and a recovery in petroleum rates. We raise our target price to RM8.40 (from RM6.82) factoring in the recent LNG awards and prospective wins (Mero-3 and 2 new LNG tankers). We maintain our Hold rating as we believe that current valuations have already priced in a significant amount of new prospective contracts.

Better petroleum margins; heavy engineering saw losses narrow

3Q19's core PATAMI came in at RM321m, bringing 9M19 profit to RM1.2bn (+18% yoy). The stronger results were attributable to the additional 2 LNG vessels that MISC took delivery in December 2018 and January 2019, supported by a recovery in petroleum freight rates. 9M19 results met our expectations but missed consensus, making up 70%/65% of full-year estimates. We expect the upcoming seasonally high 4Q petroleum tanker rates and narrowed losses from its chemical tankers from the progressive disposal to drive group profit.

Still busy bidding for jobs

MISC has secured four new LNG vessels, which will only contribute to earnings from 2022/2023 onwards. MISC's prospective tender book currently stands at ~US$5bn, of which the largest portion consists of Petrobras' US$2bn Mero-3 and US$700m Limbayong projects. The group is also looking to secure a few more contracts in the tanker division. Some of these prospects are likely to materialize in the coming months.

Positive outlook priced in despite higher target price

We trim our FY19 EPS slightly by 3% to reflect the slower-than-expected recovery in petroleum segment. We revised our key valuation assumptions by raising our EV/EBITDA multiple for Offshore to 10x (from 7x), in line with global FPSO peers which have re-rated recently, but maintain both LNG and Petroleum at 10x and 7x. Our valuation upgrade also takes into account new project wins - Mero-3 FPSO and 2 LNG tankers (assume US$400m capex, IRR 12%). All things, positives are already priced into the stock, but we maintain our Hold call, given prospective positive newsflow.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue (RMm)	10,068.2	8,780.3	9,326.6	10,852.7	11,183.6
EBITDA (RMm)	4,643.0	3,340.4	3,882.7	4,243.9	4,495.0
Pretax profit (RMm)	2,003.6	1,344.1	1,672.0	1,883.8	2,002.4
Net profit (RMm)	1,981.5	1,311.5	1,614.5	1,785.9	1,895.0
EPS (sen)	44.4	29.4	36.2	40.0	42.5
PER (x)	18.7	28.2	22.9	20.7	19.6
Core net profit (RMm)	2,641.3	1,322.5	1,614.5	1,785.9	1,895.0
Core EPS (sen)	59.2	29.6	36.2	40.0	42.5
Core EPS growth (%)	25.3	(49.9)	22.1	10.6	6.1
Core PER (x)	14.0	28.0	22.9	20.7	19.6
Net DPS (sen)	31.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	3.7	3.6	3.6	3.6	3.6
EV/EBITDA (x)	9.2	13.3	11.4	10.3	9.9
Chg in EPS (%)			(3.4)	(0.4)	0.9
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

MISC

MISC MK
Sector: Oil & Gas

RM8.30 @ 13 November 2019

HOLD (maintain)

Upside: 3%

Price Target: RM8.40

Previous Target: RM6.82

Price Performance

	1M	3M	12M
Absolute	0.2%	15.3%	25.6%
Rel to KLCI	-2.3%	15.0%	32.7%

Stock Data

Issued shares (m)	4,463.7
Mkt cap (RMm)/(US$m)	37,049.1/8,920.4
Avg daily vol - 6mth (m)	3.4
52-wk range (RM)	5.93-8.63
Est free float	15.8%
BV per share (RM)	7.91
P/BV (x)	1.05
Net cash/ (debt) (RMm)	(6,720)
ROE (2019E)	4.7%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Petroliam Nasional	62.7%
EPF	5.5%
PNB	4.8%

Source: Affin Hwang, Bloomberg

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Risks

Upside risks include: (i) a rebound in shipping charter rates, (ii) more contract wins across the segments, and (iii) further strengthening of the USD. Downside risks would arise from: (i) a continued decline in charter rates, (ii) unforeseen contract terminations, or (iii) further RM appreciation.

Fig 1: New SOTP breakdown

Segment	Value (RMm)	Value per share (RM)	Valuation Methodology
LNG	18,999.8	4.26	Maintain 10x EV/EBITDA; with global peers now trading 11x (included 4 new LNG contracts)
Petroleum	7,835.5	1.76	Maintain 7x EV/EBITDA
Offshore	12,740.1	2.85	**Raised from 7x EV/EBITDA multiple to 10x**, in line with global peers' recent re-rating
Heavy Engineering	883.1	0.20	Based on TP of RM0.83 at 66.5% shareholding
Associate	1,208.4	0.27	1x book value
Prospective wins	2,736.4	0.61	Mero-3 (US$2bn capex, IRR 13%, 50% stake), 2 LNG tankers (US$400m capex, IRR 12%). WACC 7.7%
Subtotal	**44,403.2**	**9.95**	
Less: Net debt	(6,861.2)	(1.55)	
Total RNAV	**37,542.0**	**8.40**	
Issued shares (m)	4,464		
RNAV/share (RM)	**8.40**		

Source: Affin Hwang forecasts

Fig 2: Old SOTP breakdown

Segment	Value (RMm)	Value per share (RM)	Valuation Methodology
LNG	18,053	4.04	10x 2020E EV/EBITDA
Petroleum	8,293	1.86	7x 2020E EV/EBITDA
Offshore	8,846	1.98	7x 2020E EV/EBITDA
Heavy Engineering	883	0.20	Based on TP of RM0.83 at 66.5% shareholding
Associate	1,208	0.27	1x book value
Subtotal	**37,284**	**8.35**	
Less: Net debt	(6,842)	(1.53)	2020E
Total RNAV	**30,442**	**6.82**	
Issued shares (m)	4,464		
RNAV/share (RM)	**6.82**		

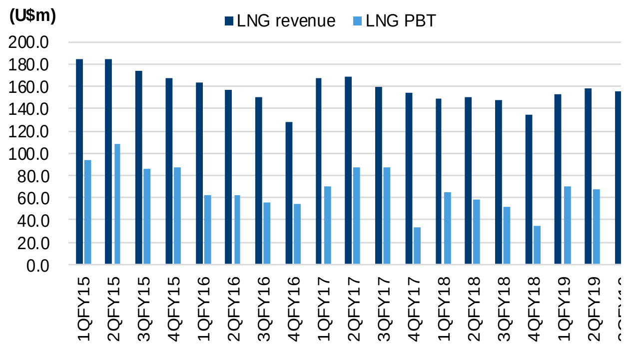
Source: Affin Hwang forecasts

Fig 3: Results Comparison

FYE 31 Dec (RMm)	3Q18	2Q19	3Q19	QoQ % chg	YoY % chg	9M18	9M19	YoY % chg	Comments
Revenue	2,229.2	2,161.7	2,147.8	(0.6)	(3.7)	6,391.8	6,587.2	3.1	Main growth driver due to stronger LNG and petroleum segments. LNG saw 2 additional vessels contribution, and higher rates for petroleum tankers
Op costs	(1,353.9)	(1,173.7)	(1,230.4)	4.8	(9.1)	(3,808.0)	(3,551.6)	(6.7)	
EBITDA	875.3	988.0	917.4	(7.1)	4.8	2,583.8	3,035.6	17.5	
EBITDA margin (%)	*39.3*	*45.7*	*42.7*	*(3.0)*	*3.4*	*40.4*	*46.1*	*5.7*	
Depn and amort	(479.2)	(543.7)	(566.0)	4.1	18.1	(1,405.2)	(1,648.0)	17.3	
EBIT	396.1	444.3	351.4	(20.9)	(11.3)	1,178.6	1,387.6	17.7	
EBIT margin (%)	*17.8*	*20.6*	*16.4*	*(4.2)*	*(1.4)*	*18.4*	*21.1*	*2.6*	
Int expense	(109.9)	(115.6)	(116.1)	0.4	5.6	(285.1)	(365.9)	28.3	
Affiliate income	39.8	101.5	82.4	(18.8)	107.0	122.4	227.0	85.5	The increase yoy was partly due to a RM45m provision write back amounted to RM45m relating to FPSO maintenance
EI	25.1	(11.1)	(30.2)	n.m	n.m	(27.1)	(0.1)	n.m	Loss on disposal of chemical tankers, excluded net RM25m of provision write back at JV level
Pretax profit	**351.1**	**419.1**	**287.5**	(31.4)	(18.1)	**988.8**	**1,248.6**	26.3	
Tax	(11.9)	(17.2)	(16.6)	(3.5)	39.5	(31.4)	(59.8)	90.4	
Tax rate (%)	*3.4*	*4.1*	*5.8*	*1.7*	*2.4*	*3.2*	*4.8*	*1.6*	
MI	1.8	(2.1)	(4.8)	n.m	n.m	15.4	(12.4)	n.m	
Net profit	**341.0**	**399.8**	**266.1**	(33.4)	(22.0)	**972.8**	**1,176.4**	20.9	
EPS (sen)	7.6	9.0	6.0	(33.4)	(22.0)	21.8	26.4	20.9	
Core net profit	**315.9**	**410.9**	**296.3**	(27.9)	(6.2)	**999.9**	**1,176.5**	17.7	Results were in line with our expectation, but missed consensus

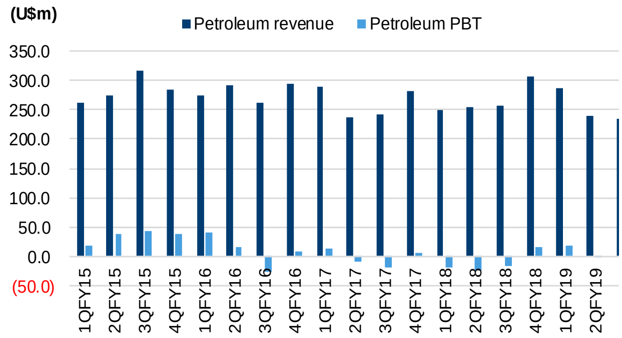
Source: Affin Hwang, Company

Fig 4: LNG financials



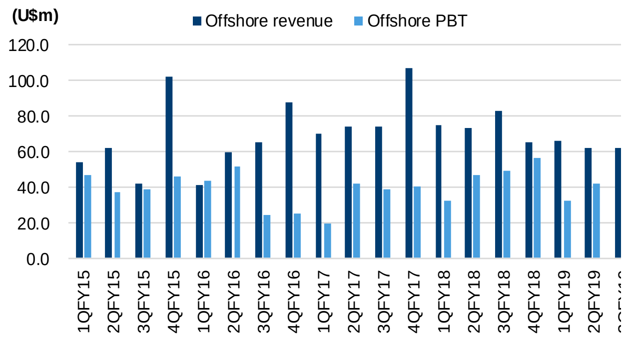
Source: Affin Hwang, MISC

Fig 5: Petroleum financials



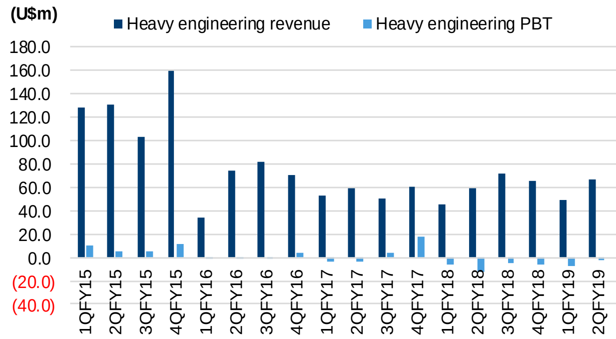
Source: Affin Hwang, MISC

Fig 6: Offshore financials



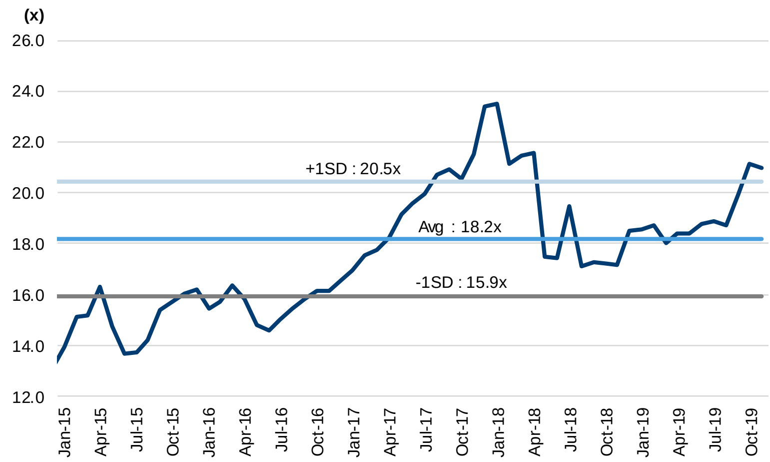
Source: Affin Hwang, MISC

Fig 7: Heavy Engineering financials



Source: Affin Hwang, MISC

Fig 8: Positive looks price in, with valuation now trading near 21x



Source: Bloomberg, Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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